

Message Text

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CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

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P R 270850Z SEP 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8252

INFO AMEMBASSY DACCA

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USADB

FOR NAC AGENCIES

E O 11652: ADS, DECLAS 6/30/74

TAGS: EAID, EFIN, BG

SUBJ: PROPOSED ADB LOANS AND TECHNICAL ASSISTANCE GRANT FOR
CHITTAGONG PORT PROJECT (BANGLADESH)

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING
\$6.8 MILLION TO PEOPLE'S REPUBLIC OF BANGLADESH, OF
WHICH \$3.6 MILLION EQUIVALENT WOULD BE FROM ORDINARY
CAPITAL RESOURCES AND \$3.2 MILLION FROM SPECIAL FUNDS
RESOURCES, TO FINANCE FOREX COST OF REHABILITATION
PROJECT THAT WOULD ALSO INCREASE CARGO HANDLING
CAPACITY OF CHITTAGONG PORT FACILITIES. ALSO PROPOSED
IS TECHNICAL ASSISTANCE (TA) GRANT OF UP TO \$160,000 TO
COVER FOREX COST OF FEASIBILITY STUDY OF FUTURE PORT
EXPANSION PROJECT AND OF STUDY OF TARIFF STRUCTURE AND
FINANCIAL SYSTEMS OF PORT. USADB GENERALLY DISAPPOINTED
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WITH QUALITY BANK PROJECT PRESENTATION. WHILE WILLING

TO RECOMMEND FAVORABLE NAC ACTION, USADB WISHES TO NOTE ESPECIALLY THAT IT HAS STRESSED TO BANK STAFF, AND INTENDS TO REEMPHASIZE TO MANAGEMENT AND BOARD OF DIRECTORS, NEED FOR (A) EFFECTIVE ASSURANCES FROM GOVT RE EXTENT AND TIMING OF OVERALL TARIFF REVISION, AND (B) CREATION OF SOUND FINANCIAL MANAGEMENT SYSTEM. END SUMMARY.

1. ADB DOC R77-73 WITH ATTACHMENTS DESCRIBING PROPOSED LOANS AND GRANT POUCHED ADDRESSEES SEPT 24. BOARD CONSIDERATION SCHEDULED OCT 16.

2. ADB MANAGEMENT PROPOSING BLENDING OF LOANS OF \$3.6 MILLION FROM ORDINARY CAPITAL RESOURCES AND \$3.2 MILLION FROM SPECIAL FUNDS RESOURCES (TOTAL OF \$6.8 MILLION) TO PEOPLE'S REPUBLIC OF BANGLADESH. PROCEEDS WILL FINANCE FOREX COST OF REHABILITATING AND INCREASING CARGO HANDLING CAPACITY OF CHITTAGONG PORT FACILITIES, TO INCLUDE RE-CONSTRUCTION OF FIVE TRANSIT SHEDS, REPLACEMENT AND IMPORVEMENT OF RAILWAY TRACKS AND PROCUREMENT OF REQUIRED CONSTRUCTION EQUIPMENT, IMPORTATION OF ONE TUGBOAT AND CARGO HANDLING EQUIPMENT, AND PROVISION OF ENGINEERING SERVICES. ALSO PROPOSED IS TA GRANT OF UP TO \$160,000 TO COVER FOREX COST OF FEASIBILITY STUDY OF FUTURE PORT EXPANSION PROJECT AND OF STUDY OF TARIFF STRUCTURE AND FINANCIAL SYSTEMS OF PORT. PROPOSED TERMS ARE (A) 25 YEAR AMORTIZATION INCLUDING 5-YEAR GRACE PERIOD, SEVEN AND ONE HALF PERCENT INTEREST FOR ORDINARY CAPITAL LOAN AND (B) 40 YEAR AMORTIZATION INCLUDING 10-YEAR GRACE PERIOD, ONE PERCENT INTEREST FOR SPECIAL FUNDS LOAN. REPAYMENT OF PRINCIPAL SPECIAL FUNDS LOAN TO BE AT RATE OF 2 PERCENT PER ANNUM FROM 11TH TO 20TH YEAR AND 4 PERCENT THEREAFTER. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER AND CHITTAGONG PORT TRUST (CPT) TO BE EXECUTING AGENCY.

3. CHITTAGONG PORT, LOCATED ABOUT NINE MILES UP KARNAFULI RIVER FROM BAY OF BENGAL, IS PRINCIPAL PORT OF BANGLADESH. IT HANDLES ABOUT TWO-THIRDS OF COUNTRY'S FOREIGN TRADE, EXCLUDING BULK PETROLEUM, AND IS CONNECTED TO DACCA AND HINTERLAND BY ROAD, RAILWAY AND WATERWAY. DURING 1971 HOSTILITIES, PORT FACILITIES WERE DAMAGED, LIMITED OFFICIAL USE

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WHILE RIVER-MOUTH AND BERTHING AREAS BECAME INOPERATIVE FROM MINES AND SUNKEN SHIPS. ALTHOUGH DAMAGE TO PHYSICAL FACILITIES OF PORT ARE BEING REPAIRED AND PORT WORK HAS BEEN RESTORED TO FULL UNOBSTRUCTED ACTIVITY, AVAILABLE FACILITIES ARE INADEQUATE FOR TRAFFIC BEING HANDLED.

4. OF 17 JETTIES IN COMMERCIAL PORT AREA HANDLING DRY CARGO, NOS. 1 TO 6, WHICH WERE DAMAGED DURING 1960 AND

1963 CYCLONES, ARE BEING RECONSTRUCTED WITH PARTIAL FINANCING FROM PROCEEDS OF 1964 USAID LOAN. NOS. 7 TO 13 MEET MODERN STANDARDS AND ARE FULLY OPERATIONAL. PROPOSED BANK PROJECT WOULD PROVIDE FOR REHABILITATION, UPGRADING AND IMPROVEMENT OF EXISTING FACILITIES AT PORT AND PROCUREMENT OF EQUIPMENT TO COMPLEMENT RECONSTRUCTION OF NOS. 1 TO 6, WHICH IS NOW UNDERWAY AND SCHEDULED TO BE COMPLETED BY END 1975.

5. UPON COMPLETION OF WORKS, GENERAL CARGO HANDLING CAPACITY OF JETTIES WILL INCREASE FROM PRESENT 2.0 MILLION TONS TO ABOUT 3.0 MILLION TONS PER YEAR, BUT TRAFFIC IS EXPECTED TO SURPASS THIS FIGURE AROUND 1976. FOUR SMALL TEMPORARY JETTIES OF RESTRICTED USAGE (NOS. 14 TO 17) NEED TO BE REPLACED WITH PERMANENT JETTIES IN NEAR FUTURE AND WILL REQUIRE CONSTRUCTION OF TWO NEW JETTIES NOS. 18 AND 19 TO ACCOMMODATE EXISTING TRAFFIC BEFORE REPLACEMENT CAN BE UNDERTAKEN AND FOR WHICH GOVT HAS REQUESTED TECHNICAL ASSISTANCE FROM BANK FOR NECESSARY FEASIBILITY STUDY. ABOVE SCENARIO IS CONSISTENT WITH MASTER PLAN STUDY FOR PORT COMPLETED IN 1965 BY U.S. CONSULTING FIRM, FREDRIC R. HARRIS, INC., FOR EXPANSION OF FACILITIES, WITH PRIORITIES ON REBUILDING OF JETTIES NOS. 1 TO 6 AND CONSTRUCTION OF BULK HANDLING FACILITIES FOR GRAIN, CEMENT, CLINKER AND FERTILIZERS, ALL OF WHICH EITHER HAVE BEEN COMPLETED OR ARE IN PROGRESS.

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6. TOTAL COST OF PROJECT FOR WHICH BANK PARTICIPATION REQUESTED IS ESTIMATED AT \$15.6 MILLION, OF WHICH FOREX COMPONENT PROPOSED FOR BANK FINANCING IS \$6.8 MILLION. GOVT HAS ASSURED THAT LOCAL CURRENCY REQUIREMENTS OF \$8.8 MILLION (ASSUMING CIVIL WORKS TO BE EXECUTED BY QUALIFIED LOCAL CONTRACTORS) WILL BE MADE AVAILABLE. PROCEEDS OF \$3.6 MILLION LOAN FROM ORDINARY CAPITAL TO BE ALLOCATED FOR TRANSIT SHEDS, CARGO HANDLING EQUIPMENT AND ENGINEERING SERVICES; SPECIAL FUNDS PROCEEDS TO BE ALLOCATED FOR RAILROAD MATERIALS AND CONSTRUCTION EQUIPMENT AND TUGBOAT (SIDE LETTER NO. 1).

7. IN ADDITION, GOVT HAS REQUESTED TA FOR FEASIBILITY STUDY FOR CONSTRUCTION OF TWO NEW JETTIES AND REPLACEMENT OF JETTIES NOS. 14 TO 17, INCLUDING NECESSARY SUPPORTING FACILITIES. THIS PROPOSED STUDY OF FUTURE PORT EXPANSION, ESTIMATED TO COST \$100,000, WOULD CONSIST OF AN ECONOMIC AND TECHNICAL STUDY TO INCLUDE SOIL INVESTIGATION, PRELIMINARY DESIGN, WORKS SCHEDULING AND COST ESTIMATES. ALSO INCLUDED IN PROPOSED TA IS LIMITED OFFICIAL USE

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FINANCIAL STUDY, ESTIMATED TO COST \$60,000, TO COVER TARIFF STRUCTURE AND ACCOUNTING, BUDGETARY AND FINANCIAL MANAGEMENT SYSTEMS OF CPT.

8. CPT, WHICH IS TO BE EXECUTING AGENCY FOR PROJECT AND ADMINISTERS PORT, IS CONTROLLED BY GOVT. PROJECT OFFICE WILL BE ESTABLISHED WITHIN CPT AND WILL DESIGN, WITH ASSISTANCE OF FOREIGN CONSULTANTS, CIVIL WORKS FOR PROJECT IMPLEMENTATION BY LOCAL CONTRACTORS. BANGLADESH RAILWAY WILL IMPLEMENT WORK CONNECTED WITH TAILWAY TRACK SYSTEM. MATERIALS AND EQUIPMENT WILL BE PROCURED IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; PROCUREMENT UNDER SPECIAL FUNDS LOAN WILL BE LIMITED TO ELIGIBLE SOURCE COUNTRIES TO EXTENT PRACTICABLE. BANK'S GUIDELINES ON USES OF CONSULTANTS TO APPLY IN SELECTION OF CONSULTANTS.

9. PREVIOUS LOAN TO BANGLADESH FOR FISHERIES DEVELOPMENT PROJECT APPROVED JUNE 14 CONTAINED GRANT ELEMENT OF ABOUT 60 PERCENT. IN VIEW BANGLADESH'S VERY DIFFICULT ECONOMIC SITUATION, BANK MANAGEMENT CONSIDERS AVERAGE GRANT ELEMENT OF 64 PERCENT TO BE APPROPRIATE. IN ORDER

TO MAINTAIN COUNTRY AVERAGE AT 64 PERCENT, GRANT ELEMENT OF PROPOSED FINANCING WOULD BE 49 PERCENT, CONSIDERING THAT GRANT ELEMENT IN PROPOSED LOAN FOR BANGLADESH WEST ZONE POWER PROJECT WOULD BE 74 PERCENT. (NOTE: ADB DOC R76-73 ON PROPOSED LOAN FOR POWER PROJECT POUCHED SEPT 24 AND ALSO SCHEDULED FOR BOARD CONSIDERATION OCT 16.)

10. IN DISCUSSIONS WITH BANK STAFF, USADB MADE FOLLOWING POINTS.

A. WHILE PROJECT APPEARS TECHNICALLY FEASIBLE, HAS HIGH PRIORITY AND HAS ECONOMIC RATE OF RETURN OF 17 PERCENT, FINANCIAL RATE OF RETURN ESTIMATED AT ONLY 3.6 PERCENT DUE TO EXISTING TARIFF STRUCTURE. LOAN DOCUMENT LACKS APPROPRIATE ASSURANCES OF EFFECTIVE CORRECTIVE ACTION BY GOVT AS QUID PRO QUO FOR LOANS.

B. UNABLE TO MAKE REALISTIC FINANCIAL PROJECTIONS ON BASIS OF AVAILABLE DATA WHICH ARE SKETCHY AND OLD. LIMITED OFFICIAL USE

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11. STAFF RESPONDED IT SHARES OUR CONCERN. FEELS, HOWEVER, THAT TIMING OF PROPOSED TA FOR FEASIBILITY STUDY WHICH IS EXPECTED TO LEAD TO SECOND LOAN (PROBABLY IN 1974) COUPLED WITH FINANCIAL STUDY COVERING TARIFF STRUCTURE AND ACCOUNTING, BUDGETARY AND FINANCIAL MANAGEMENT SYSTEMS OF CPT, DO PROVIDE EFFECTIVE ASSURANCES AND IS BEST STRATEGY. STAFF NOTED BANK NOT SURE AT THIS TIME WHAT CONSULTANTS WILL COME UP WITH REGARDING TARIFF AND IS RELUCTANT TO ANTICIPATE RESULTS OF STUDY, WHICH SHOULD BE AVAILABLE BEFORE MID-1974. ALSO NOTED SIMILARITY OF PROJECT TO EARLIER BANK PROJECT FOR TANDJUNG PRIOK PORT DEVELOPMENT IN INDONESIA.

12. USADB BELIEVES PROPOSED PROJECT DOES HAVE HIGH PRIORITY IN VIEW INADEQUACY AND UNSATISFACTORY CONDITION OF PRESENT FACILITIES, AND SHOULD YIELD SIGNIFICANT ECONOMIC BENEFITS IN TERMS OF SAVINGS IN SHIPS' TIME IN PORT AND IN CARGO HANDLING COSTS. APPRECIATE POINTS MADE BY BANK STAFF, BUT USADB PLANS TO REEMPHASIZE TO MANAGEMENT AT BOARD MEETING IMPORTANCE OF ITS ROLE IN USING LEVERAGE TO OBTAIN NEEDED ASSURANCES OF EFFECTIVE CORRECTIVE ACTION. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

13. REQUEST DACCA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. WOULD APPRECIATE CURRENT READING ON EXTENT OF USAID ROLE IN RECONSTRUCTION JETTIES NOS. 1 TO 6.
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